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Regional Sales of Multinationals in the World Cosmetics Industry

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This paper analyzes the regional characteristics and strategies of multinational enterprises (MNEs) in the world cosmetics and toiletries industry, based on the new work by Rugman on regional strategy. We test the proposition that MNEs may asymmetrically develop their upstream and downstream firm specific advantages (FSAs). We find that the downstream activities of the MNEs in cosmetics are home region based but that upstream activities are more so. Further, the asymmetry of FSAs in the world cosmetics industry is mainly due to the atypical Asian entry strategies of North American and West European cosmetics MNEs. Two case studies confirm how variations in FSAs can affect regional strategy.
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Introduction

In a previous article in this journal, Rugman and Collinson (2004) examined the international activity of the world's largest automobile companies. They reported that these so-called global firms in fact are all operating on a regional basis, with an average of 80 percent of their sales within their home region. In this paper this regional lens is applied to the world cosmetics industry. Two advances are introduced. First, as well as the sales of these firms, their assets will be considered. Second, the presence and performance of world cosmetics firms is examined in a regional context for the first time.

Rugman (2000, 2005) and Rugman and Verbeke (2004) show that the largest multinational enterprises (MNEs) utilize not a global strategy but a home region-based strategy as they go into foreign markets. Several related studies have examined the regional characteristics of MNEs at the industry level: the automotive sector (Rugman and Collinson, 2004); the retail sector (Rugman and Girod, 2003). There are also several studies at region/country level: Europe (Rugman and Collinson, 2005); Japan (Rugman and Collinson, 2006). Some earlier work also implicitly discusses regional strategy. In particular, Johansson and Vahlne (1977) show that firms select geographically and culturally similar markets to overcome the liability of foreignness. Davidson (1983) suggests that similarities in supply, demand, and uncertainty encourage foreign entry. Ohmae (1985) notes that MNEs can take advantage of customer similarities among nations, and he was the first to define broad regions in the triad space: North America; Western Europe; and Japan.

Schlie and Yip (2005) suggest that regionalization and regional strategy could evolve as a better solution than their global counterparts because MNEs confront two pressures: total globalization barriers and competitive regionalization advantages. After analyzing the world automotive industry, they further argue that regional strategies could be associated with a more rather than less advanced stage in the evolution of firm's global strategy. We do not believe this; there are many large MNEs (LMNEs) reporting a regional strategy but they clearly do not ever have a global strategy. However, to better test this it is necessary to move on from looking at sales data and also consider assets, as we do here. Rugman (2005) in fact already examined the downstream activity (sales) of LMNEs. Here we extend this work with a comparative analysis of the upstream (assets) and downstream (sales) firm specific advantages (FSAs) of subsidiary business units. Moreover, this study analyzes not only LMNEs but also smaller MNEs in the cosmetics and toiletries (henceforth cosmetics) industry and compares their international strategies. We find that the development of upstream activities in small cosmetics MNEs lags behind the growth of downstream activities, compared to larger cosmetics MNEs. This asymmetry comes from North American and West European MNEs' entry strategy in the Asian market. By comparing upstream and downstream FSAs in the regional context, we also study and compare the strategies of Avon and Gucci.

We proceed as follows. In the next section, we describe the data and review background information about the world cosmetics industry. After examining the regional characteristics of the cosmetics industry and the asymmetry between upstream FSAs and downstream FSAs, we review two cases of internationalization strategy. We conclude with a discussion of the contribution and managerial implication of this study.

The World Cosmetics Industry

In this paper, we focus on the regional sales and localized operation (assets) of the world's largest 100 cosmetics companies for 2003. The list of the world's largest 100 cosmetics companies and its cosmetics sales come from the Woman's Wear Daily (WWD) magazine, and the list is reported in Appendix A.[1] France based L'Oréal had sales of 15.5 billion US dollars worldwide in 2003, and Procter and Gamble, Unilever, Shiseido, and Estée Lauder were next, while Perricone MD is the smallest firm with sales of 52 million US dollars worldwide in 2003. The world cosmetics market is oligopolized by a few large companies; the largest company, L'Oréal, is about 300 times bigger than the 100th largest company, Perricone MD.

Table 1 reports the number and average sales of firms by nationality and by home region. The cosmetics industry is regionally based, and firms based in North America and in West Europe account for approximately 86% of sales: 43% for each region. Firms based in Japan and South Korea also have substantial market share at 14%.[2] West European cosmetics companies have the largest portion, 50%, in terms of number, but their average sales are the smallest, 960 million US dollars. Firms in the largest five countries (USA, UK, France, Germany and Japan) make up 93% of sales. Except for eight Brazilian, Russian, and South Korean companies all firms have their headquarters in developed countries.

Table 1 The World's Largest 100 Cosmetics Companies

Region	Home Country	Number of Firms	Total Global Sales		Average Global Sales
America	United States	35	46,753	(42.56%)	1,336
	Canada	1	59	(0.05%)	59
	Brazil	1	147	(0.13%)	147
	Sub Total	37	46,959	(42.75%)	1,269
Europe	France	16	25,082	(22.83%)	1,567
	Italy	10	1,843	(1.51%)	166
	Germany	9	6,599	(6.01%)	733
	United Kingdom	4	10,835	(9.86%)	2,709
	Switzerland	3	352	(0.32%)	117
	Spain	2	1,440	(1.31%)	720
	Russia	2	181	(0.16%)	91
	Netherlands	1	696	(0.63%)	696
	Ireland	1	206	(0.19%)	206
	Sweden	1	738	(0.67%)	738
	Sub Total	50	47,977	(43.67%)	960
Asia	Japan	8	13,051	(11.88%)	1,631
	South Korea	5	1,870	(1.70%)	374
	Sub Total	13	14,921	(13.58%)	1,148
Total		100	109,857	(100.00%)	1,098

Source: Woman's Wear Daily 2003, Millions of US $. Unilever is counted as a UK firm.

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